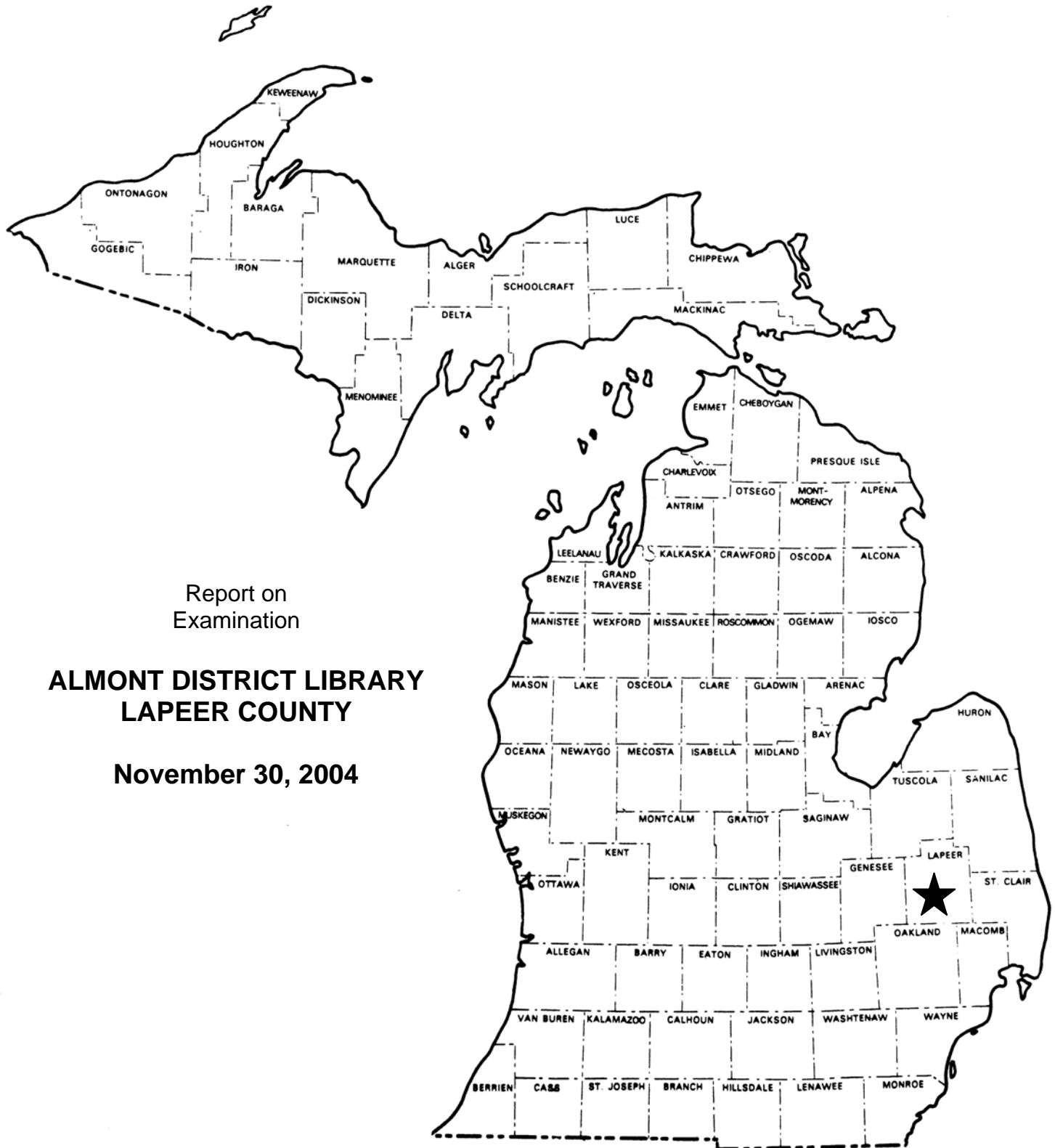


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**



Report on  
Examination

**ALMONT DISTRICT LIBRARY  
LAPEER COUNTY**

**November 30, 2004**

ALMONT DISTRICT LIBRARY

LIBRARY BOARD

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Vice President

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JENNIFER M. GRANHOLM  
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STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

December 7, 2005

Almont District Library  
Board of Trustees  
213 West St. Clair  
P.O. Box 517  
Almont, Michigan 48003

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying basic financial statements of the Almont District Library, Lapeer County, Michigan, as of and for the year ended November 30, 2004, as listed in the Table of Contents. These financial statements are the responsibility of Almont District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note J, the Almont District Library adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues;" GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended by GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures;" and Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures," as of December 1, 2003.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and major fund information of Almont District Library, as of November 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated December 7, 2005, on our consideration of Almont District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 1 through 5 and the Budgetary Comparisons for the Major Fund in Exhibits D and E are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurements and the presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Almont District Library's basic financial statements. The accompanying supplementary information and schedules, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The individual statements of revenues and expenditures for the general fund has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken, as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# ALMONT DISTRICT LIBRARY

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## **ALMONT DISTRICT LIBRARY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### Using this Annual Report

The Almont District Library's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the District Library's financial activity; c) identify changes in the District Library's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

#### Overview of the Financial Statements

Statement of Net Assets and Statement of Activities--These statements report information about the District Library, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District Library's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the District Library's net assets and how they have changed.

Governmental Fund--The District Library's governmental activities are presented in tandem with the Statement of Net Assets and Statement of Activities. The purpose of the fund financial statements is to provide information of the general operations and services of the District Library. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance programs.

The reconciliation of the Governmental Fund to the Statement of Net Assets and Statement of Activities can be found in the adjustment column between the two statements.

#### Reporting the District Library as a Whole

The Statement of Net Assets and the Statement of Activities report information about the District Library, as a whole, and about its activities in a way that helps answer the question of whether the District Library, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the District Library's net assets and changes in them. The reader can think of the District Library's net assets (the difference between assets and liabilities) as one way to measure the District Library's financial health or financial position. Over time, increases and decreases in the District Library's net assets are one indicator of whether its financial health is improving or deteriorating.

**ALMONT DISTRICT LIBRARY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Report the District Library's Major Fund

The District Library currently has only one fund, the General Operations Fund, in which all of the District Library's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District Library's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District Library's services.

The Almont District Library provides informational and educational activities that promote understanding of various topics and helps to improve the desire to read. Therefore, the District Library is involved in many educational programs such as: preschool story hour, summer reading programs, book clubs, a genealogical and historical room, internet access for online extended learning, and an internet connection for local community access.

This is the first year of implementation; a comparison between years has not been presented. In a condensed format, the table below shows the net assets as of the current year.

	<u>Governmental Activities 2004</u>
Current Assets	\$ 217,296
Capital Assets	<u>183,886</u>
Total Assets	<u>401,182</u>
Long-Term Debt Outstanding	4,299
Other Liabilities	<u>10,879</u>
Total Liabilities	<u>15,178</u>
Net Assets	
Investment in Capital Assets	
Net of Related Debt	179,587
Unrestricted	<u>206,417</u>
Total Net Assets	<u><u>\$ 386,004</u></u>

## ALMONT DISTRICT LIBRARY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Changes in Net Assets

Revenue was affected by a reduction in charges for services from internet use memberships and an increase in expenditures for additional staffing, increased salaries, staff education, and building maintenance. It was also affected by the annual decrease in millage rate and thus a lower collection of property tax revenues. Expenses increased due to the board's decision to increase district activities and keep public awareness by offering more educational programs at no or low cost to the participant.

A summary of changes in net assets for the year ended November 30, 2004, as follows:

	Governmental Activities <u>2004</u>
Program Revenues	
Charges for Services	\$ 65,544
Operating Grants and Contributions	7,615
General Revenues	
Taxes	237,482
Unrestricted Investment Earnings	<u>3,065</u>
Total Revenues	<u>313,706</u>
Program Expenses	
General Government	
Recreation and Cultural	<u>258,791</u>
Total Expenses	<u>258,791</u>
Change in Net Assets	<u><u>\$ 54,915</u></u>

#### The District Library's Fund

The District Library's General Operations Fund is used to control the expenditures of property taxes allocated for library operations and improvements.

For the year ended November 30, 2004, the fund balance of the General Operations Fund decreased by \$6,366. Total operating revenues were \$313,706, a decrease of \$19,334 as compared to last year, which was primarily the result of a decrease in charge for services and a decrease in tax revenues.

Total expenditures of \$320,072, equaled a decrease of \$5,753 as compared to last year. This change in expenditures is primarily the result of a decrease in the purchase of capital assets.



## ALMONT DISTRICT LIBRARY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Budgetary Highlights

Prior to the beginning of any year, the District Library's budget is compiled based upon certain assumptions and facts available at that time. During the year, the District Library's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews all expenditures throughout the year.

The original and final amended revenue budget for 2004 was more than the actual revenue by \$47,494. This was due, in large part, to a charge for services reduction in the amount of \$41,617, and a property tax decrease over budget of \$8,718.

The District Library's original expenditures were projected at \$361,000 and the final amended budget was \$375,285, while actual expenditures were \$320,071, resulting in budgeted expenditures exceeding actual by \$55,510. This was primarily due to the District Library functioning without a director, resulting in a reduction in salaries and fringes, and contractual services.

#### Capital Assets and Debt Administration

	Account Balances 12/01/03	Account Balances 11/30/04	Variance Increase (Decrease)
Capital Assets			
Land	\$ 2,100	\$ 2,100	-
Land Improvements--Nondepreciable		2,408	\$ 2,408
Buildings and Improvements	180,718	192,867	12,149
Office and Other Equipment	12,400	34,315	21,915
Office Furniture	21,373	22,439	1,066
Library Books and Audiovisual Materials		37,629	37,629
Total Capital Assets	216,591	291,758	75,167
Less Accumulated Depreciation	(90,837)	(107,873)	(17,036)
Net Capital Assets	\$ 125,754	\$ 183,885	\$ 58,131

The copier, originally leased for \$12,400 is a capital lease and has related debt in the amount of \$4,299.

#### Economic Factors and Next Year's Budget

The Directors of the District Library considered many factors when setting the fiscal year 2004 budget. One of the factors is the economy. The District Library derives approximately two-thirds of its revenues from taxes.

**ALMONT DISTRICT LIBRARY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The board realizes, and the reader should understand, that there are not sufficient funds available to have every book a reader would like to check out; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the patrons and the citizens of Lapeer County.

Contacting the District Library's Financial Management

This financial report is designed to provide the patrons, citizens and other interested parties a general overview of the District Library's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Almont District Library administrative offices at: 213 West St. Clair, P.O. Box 517, Almont, Michigan 48003.

**ALMONT DISTRICT LIBRARY  
GOVERNMENTAL FUNDS BALANCE SHEET  
STATEMENT OF NET ASSETS  
November 30, 2004**

**EXHIBIT A**

	<b>GOVERNMENTAL FUND TYPE</b>		
	Modified Accrual Basis	Adjustments	Statement of Net Assets
<b><u>ASSETS</u></b>			
Cash	\$ 217,296		\$ 217,296
Capital Assets		\$ 183,886	183,886
Total Assets	<u>\$ 217,296</u>	<u>\$ 183,886</u>	<u>\$ 401,182</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>			
Liabilities			
Accounts Payable	\$ 4,018		\$ 4,018
Accrued Wages Payable	6,861		6,861
Installment Purchase Agreement		\$ 4,299	4,299
Total Liabilities	<u>10,879</u>	<u>4,299</u>	<u>15,178</u>
Fund Equities			
Fund Balance			
Designated for Technology	2,543	(2,543)	-
Designated for Genealogy	8,220	(8,220)	-
Designated for Building	42,248	(42,248)	-
Unreserved and Undesignated	<u>153,406</u>	<u>(153,406)</u>	<u>-</u>
Total Fund Equities	<u>206,417</u>	<u>(206,417)</u>	<u>-</u>
Total Liabilities and Fund Equities	<u>217,296</u>	<u>(202,118)</u>	<u>15,178</u>
Net Assets			
Invested in Capital Assets--Net of Related Debt		179,587	179,587
Restricted			
Unrestricted		206,417	206,417
Total Net Assets	<u>\$ -</u>	<u>\$ 386,004</u>	<u>\$ 386,004</u>
Fund Balances--Total Governmental Funds			<u>\$ 206,417</u>
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Add--Capital Assets			291,759
Deduct--Accumulated Depreciation			<u>(107,873)</u>
Net Capital Asset Addition			<u>183,886</u>
Long-term liabilities are not due and payable in the current period. Therefore, they are not reported in the funds.			
			<u>(4,299)</u>
Net Assets of Governmental Activities			<u>\$ 386,004</u>

**The Notes to the Financial Statements are an integral part of this statement.**

**ALMONT DISTRICT LIBRARY**  
**STATEMENT OF GOVERNMENTAL FUND REVENUE,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended November 30, 2004**

**EXHIBIT B**

	Modified Accrual Basis	Adjustments	Statement of Net Assets
Revenues			
Taxes	\$ 237,482		\$ 237,482
State Grants	5,272		5,272
Charges for Services	34,883		34,883
Fines and Forfeits	28,385		28,385
Interest	3,065		3,065
Other Revenue	4,619		4,619
Total Revenue	313,706	\$ -	313,706
Expenditures			
Current			
Recreation and Cultural	241,280		241,280
Capital Outlay	75,168	(75,168)	-
Depreciation Expense		17,036	17,036
Debt Service			
Principal	3,149	(3,149)	-
Interest	475		475
Total Expenditures	320,072	(61,281)	258,791
Excess of Revenues Over (Under) Expenditures	(6,366)		
Change in Net Assets		61,281	54,915
Fund Balance/Net Assets--Beginning of Year	212,783	118,306	331,089
Fund Balance/Net Assets--End of Year	\$ 206,417	\$ 179,587	\$ 386,004
Net Change in Fund Balances--Total Governmental Funds			\$ (6,366)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.			
Add--Capital Outlay			75,168
Deduct--Depreciation Expense			(17,036)
Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.			
Add--Principal Payments on Long-Term Liabilities			3,149
Change in Net Assets of Governmental Activities			\$ 54,915

**The Notes to the Financial Statements are an integral part of this statement.**

**ALMONT DISTRICT LIBRARY**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES--BUDGET AND ACTUAL**  
**GENERAL OPERATING FUND**  
**For the Fiscal Year Ended November 30, 2004**

**EXHIBIT C**

	<b>GENERAL OPERATING FUND</b>			
	Orginal Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property Taxes	\$ 246,200	\$ 246,200	\$ 237,482	\$ (8,718)
State Grants	5,000	5,000	5,272	272
Charges for Services	76,500	76,500	34,883	(41,617)
Fines and Forfeits	28,000	28,000	28,385	385
Interest and Rents	5,000	5,000	3,065	(1,935)
Other	500	500	4,619	4,119
Total Revenue	361,200	361,200	313,706	(47,494)
Expenditures				
Recreation and Cultural	273,300	286,882	241,280	45,602
Capital Outlay	84,000	85,000	75,168	9,832
Debt Service	3,700	3,700	3,624	76
Total Expenditures	361,000	375,582	320,072	55,510
Excess of Revenues Over (Under) Expenditures	200	(14,382)	(6,366)	8,016
Fund Balance--December 1, 2003	212,783	212,783	212,783	-
Fund Balance--November 30, 2004	\$ 212,983	\$ 198,401	\$ 206,417	\$ 8,016

**The Notes to Financial Statements are an integral part of the statement.**

## ALMONT DISTRICT LIBRARY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Almont District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Almont District Library:

##### Reporting Entity

Almont District Library is a district library as authorized by Public Act 24 of 1989. The District Library is governed by a board consisting of the president, vice president, secretary, treasurer and two trustees. The District Library provides services primarily to the Village of Almont and Almont Township.

The criteria established by the generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The District Library is the primary government and there are no other component units that should be reported.

##### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity (if any) has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities (if any) which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

##### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## ALMONT DISTRICT LIBRARY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District Library.

The District Library reports the following major governmental funds:

The General Fund is the District Library's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

As a general rule, the effect of interfund activity (if any) has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the District Library's policy to use restricted resources first, then unrestricted resources as they are needed.

#### Cash, Cash Equivalents and Investments

Investments are recorded at cost. Demand deposits and short-term investments with a maturity date of 3 months or less when acquired are considered to be cash equivalents.

#### Interest-Bearing Deposits

Interest-bearing deposits are recorded at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institutions, to the interest-bearing account.

# ALMONT DISTRICT LIBRARY

## NOTES TO FINANCIAL STATEMENTS

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxes Receivable--Current Levy

The County of Lapeer and the Township of Almont provide property tax revenue that is levied each December 1st based on the State taxable valuation of property located in the county as of the preceding December 31st.

The Almont District Library 2003 ad valorem tax was levied and collectible on December 1, 2003. It is the policy of the District Library to recognize revenue from the current tax levy in the 2003/2004 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Library's operations.

The 2003 taxable valuation of Lapeer County property amounted to \$201,652,081 on which ad valorem taxes of 0.8359 mills from the county and .3761 mills from the township were levied in the amount of \$168,529 and \$75,827, respectively, for the District Library.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### Capital Assets

Capital assets, which include property, plant, and equipment are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital Assets are depreciated on the straight line method over the following useful lives:

Buildings	50 years
Building Improvements	20 years
Furniture	10 years
Fixtures	8 years
Equipment	5 years
Computers	5 years
Library collection	7 years



ALMONT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities fund type Statement of Net Assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The annual budget is prepared by the library supervisor and, after a public budget hearing is held, adopted by the library board at an open meeting of the board. The library board approves all subsequent amendments to the budget. The General Fund and Special Revenue Funds are under formal budgetary control. The budget has been prepared on the modified accrual basis of accounting, which is in accordance with generally accepted accounting principles. The budget has been adopted at the activity level. Budgeted revenues and expenditures include any authorized amendments to the original budget as adopted. Unexpended appropriations lapse at year end.

Budgets and Budgetary Accounting

The annual budget is prepared by the District Library and submitted to the District Library Board at the annual public budget hearing. All subsequent amendments to the budget are approved by the District Library Board. The District Library's Special Revenue Fund is under formal budgetary control for expenditures only. The budget has been adopted on a line-item basis. Budgeted expenditures include any authorized amendments to the original budget as adopted. The expenditure budget is prepared on the modified accrual basis of accounting.

Excess of Expenditures Over Appropriations in Budgeted Funds

Public Act 2 of 1968, Section 14 (1), as amended, requires the adoption of a balanced budget as well as budget amendments as needed to prevent actual expenditures from exceeding amounts appropriated.

## ALMONT DISTRICT LIBRARY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The District Library has not complied with Section 14 (1) of Public Act 2 of 1968, as amended. As detailed in Exhibit D, operating fund expenditures exceeded the amended budget for the following activities:

	<u>Budget</u>	<u>Actual</u>
General Government		
Recreation and Cultural		
Salaries and Fringes	\$155,000	\$157,336
Capital Outlay--Library Books and Audiovisual Materials	36,000	37,629
Capital Outlay--Technology	7,000	18,333
Debt Service		
Principal	2,950	3,149

#### Other Areas of Noncompliance

The District Library did not submit an audit within 6 months after the end of the fiscal year. Michigan Compiled Laws (MCL) 141.424 (3) states: "One copy of the annual financial report required by subsection (1) shall be filed with the state treasurer within 6 months after the end of the fiscal year of the local unit." MCL 141.425 requires a local unit having a population of 4,000 or more to obtain an annual audit of its financial records, accounts, and procedures.

#### NOTE C--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District Library to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States Banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Almont District Library Board has designated two banks for the deposit of library funds. The District Library has not adopted an investment policy in accordance with Public Act 20 of 1943, as amended. The District Library's deposits are in accordance with statutory authority.

ALMONT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

At year end, the District Library's deposits are reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and Cash Equivalents	<u>\$217,296</u>
Total	<u><u>\$217,296</u></u>

The breakdown of deposits is as follows:

	<u>Primary Government</u>
Bank Deposits	\$ 217,246
Imprest cash	<u>50</u>
Total	<u><u>\$ 217,296</u></u>

The bank balance of the primary government's deposits is \$222,089, of which \$151,812 is covered by Federal depository insurance.

Investments Authorized by the Entity's Investment Policy

The District Library has not adopted a formal investment policy. However, it is the board's policy to only authorize investments in those that are authorized by law. The District Library has limited their investments to long-term certificates of deposit. The District Library does not have a policy intended to limit their exposure to interest rate risk, credit risk, and concentration of credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

As of November 30, 2004, the District Library had the no investments for which interest rate risk was required to be reported.

ALMONT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District Library is not currently exposed to concentration of credit risk.

The board does not limit the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the informal board's policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

ALMONT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS

**NOTE D--CAPITAL ASSETS**

Capital asset activity of the District Library was as follows:

	Account Balances 12/01/03	Additions	Deductions	Account Balances 11/30/04
Capital Assets Not Being Depreciated				
Land	\$ 2,100			\$ 2,100
Land Improvement--Nondepreciable		\$ 2,409		2,409
Total Capital Assets Not Being Depreciated	2,100	2,409	\$ -	4,509
Capital Assets Being Depreciated				
Buildings and Improvements	180,718	12,149		192,867
Office and Other Equipment	12,400	21,915		34,315
Office Furniture	21,373	1,066		22,439
Library Books and Audiovisual Materials		37,629		37,629
Total Capital Assets Being Depreciated	214,491	72,759	-	287,250
Less Accumulated Depreciation				
Building Improvements	63,264	4,061		67,325
Office and Other Equipment	6,200	7,483		13,683
Office Furniture	21,373	116		21,489
Library Books and Audiovisual Materials		5,376		5,376
Total Accumulated Depreciation	90,837	17,036	-	107,873
Net Capital Assets Being Depreciated	123,654	55,723	-	179,377
Net Capital Assets	<u>\$ 125,754</u>	<u>\$ 58,132</u>	<u>\$ -</u>	<u>\$ 183,886</u>

**NOTE E--LONG-TERM DEBT**

The long-term debt of Almont District Library may be summarized as follows:

	Balance 12/1/03	Additions (Reduction)	Balance 11/30/04
Installment Lease Agreement			
IOS Capital, Inc.			
Ricoh 3506 Copier	\$7,448	\$ (3,149)	\$ 4,299
Total	<u>\$7,448</u>	<u>\$ (3,149)</u>	<u>\$ 4,299</u>

ALMONT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS

NOTE E--LONG-TERM DEBT (Continued)

The annual interest and principal requirements of Almont District Library's long-term borrowing may be summarized as follows:

Installment Lease Purchase Agreement--IOS Capital Inc.

The Almont District Library entered into a lease agreement for \$12,400 at 7.875% percent interest on February 27, 2002 with IOS Capital, Inc., for the purpose of leasing a copier. The lease agreement called for 48 monthly payments of principal and interest of \$302. Principal and interest requirements to maturity are as follows:

<u>Maturity Year</u>	<u>Annual Principal Payments</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2005	\$3,407	\$ 217	\$ 3,624
2006	<u>892</u>	<u>14</u>	<u>906</u>
Total	<u>\$4,299</u>	<u>\$ 231</u>	<u>\$ 4,530</u>

NOTE F--RISK MANAGEMENT

The District Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The District Library has purchased commercial insurance which covers general liability, auto liability, property damage, boiler and machinery, inland marine and injuries to employees. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

NOTE G--POST-EMPLOYMENT BENEFITS

The District Library does not provide post-employment benefits.

NOTE H--DEFERRED COMPENSATION PLAN

The District Library does not provide a deferred compensation plan.

## ALMONT DISTRICT LIBRARY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE I--CHANGE IN ACCOUNTING PRINCIPLE

Effective December 1, 2003, the library implemented several new accounting standards issued by GASB:

Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement No. 36, "Recipient Reporting for Certain Shared Non-Exchange Revenues," which establishes standards for recording nonexchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," as amended by Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus," which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating account groups and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the "Management Discussion and Analysis Section," which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations.

Statement No. 38, "Certain Financial Statement Note Disclosures," which requires certain note disclosures when implementing GASB Statement No. 34. Also implemented was Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures."

**ALMONT DISTRICT LIBRARY**  
**SCHEDULE OF REVENUES**  
**BUDGET AND ACTUAL--GENERAL OPERATING FUND**  
**For the Fiscal Year Ended November 30, 2004**

**EXHIBIT D**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes				
Current	\$ 246,000	\$ 246,000	\$ 236,870	\$ (9,130)
Delinquent Personal	200	200	55	(145)
Industrial Facilities			557	557
State Grants				
State Aid	5,000	5,000	5,272	272
Charges for Services	76,500	76,500	34,883	(41,617)
Fines and Forfeits				
Penal Fines	28,000	28,000	28,385	385
Interest and Rentals				
Interest Earned	5,000	5,000	3,065	(1,935)
Other Revenue				
Contributions From Private Sources				
Other Contributions From Private Sources	500	500	2,343	1,843
Refunds and Rebates			2,259	2,259
Other			17	17
Total Revenue	<u>\$ 361,200</u>	<u>\$ 361,200</u>	<u>\$ 313,706</u>	<u>\$ (47,494)</u>



**ALMONT DISTRICT LIBRARY  
SCHEDULE OF EXPENDITURES  
BUDGET AND ACTUAL--GENERAL OPERATING FUND  
For the Year Ended November 30, 2004**

**EXHIBIT E**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures				
Current				
Recreation and Cultural				
Salaries and Fringes	\$ 145,000	\$155,000	\$157,336	\$ (2,336)
Supplies	7,000	7,000	5,895	1,105
Professional and Contractual Services	70,300	70,300	28,464	41,836
Utilities	28,000	28,000	25,652	2,348
Insurance	9,000	9,382	9,282	100
Building Maintenance and Repair	12,000	14,000	13,127	873
Travel	1,000	1,000	215	785
Memorials	500	1,700	833	867
Miscellaneous	500	500	476	24
Capital Outlay				
General	12,000	12,000	8,397	3,603
Library Books and Audiovisual Materials	35,000	36,000	37,629	(1,629)
Technology	7,000	7,000	18,333	(11,333)
Building	30,000	30,000	10,809	19,191
Debt Service				
Principal	2,950	2,950	3,149	(199)
Interest	750	750	475	275
Total Expenditures	<u>\$ 361,000</u>	<u>\$375,582</u>	<u>\$320,072</u>	<u>\$ 55,510</u>



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

December 7, 2005

Almont District Library  
Board of Trustees  
213 West St. Clair  
P.O. Box 517  
Almont, Michigan 48003

RE: Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of the Financial Statements Performed in Accordance  
With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of Almont District Library, Lapeer County, Michigan, as of and for the year ended November 30, 2004, and have issued our report thereon dated December 7, 2005. Almont District Library adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues;" GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended by GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures;" and Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures," as of December 1, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Almont District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Almont District Library's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Comments and Recommendations and responses as items 04-01, 04-02 and 04-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that all of the reportable conditions described above are a material weakness.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether Almont District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed several instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Comments and Recommendations and responses as items 04-04, 04-05 and 04-06.

This report is intended solely for the information and use of the library board, management and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

## ALMONT DISTRICT LIBRARY

### COMMENTS AND RECOMMENDATIONS

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Almont District Library's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is an internal control deficiency in which the design or operation of a component(s) of internal control does not reduce to a relatively low level the risk that a material misstatement may be contained in the financial statements.

Our consideration of internal controls would not necessarily disclose all matters in internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

The District Library is relatively small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the material and reportable weaknesses listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

#### MATERIAL WEAKNESSES

##### Receipting Process

*Finding 04-01*

##### 1) Director--Issuance and Reconciliation of Receipts for All Revenue Received

*Condition:* The district library director has been the only person receiving (with the exception of counter receipts), recording and reconciling all of the monies received by the district library.

##### 2) Director--Preparation of Receipts

*Condition:* The district library does not include an account classification on its receipts.

*Criteria:* Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, access restrictions to and accountability for resources and records, and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, sets forth the minimum internal controls that must be in place in every unit of government in Michigan as follows:

## ALMONT DISTRICT LIBRARY

### COMMENTS AND RECOMMENDATIONS

#### MATERIAL WEAKNESSES (Continued)

- a) Official receipts are to be issued for each collection whether received from an individual, the state, the county, or another local unit department;
- b) Numerically controlled (printed pre-numbered) three-part official receipts with the name of the local unit printed on the receipt must be issued for all collections;
- c) The use of generic, store-bought receipts is strictly prohibited;
- d) "Cash" or "check" as the method of payment must be indicated on the receipt;
- e) The receipt must identify the individual receiving payment;
- f) The receipt must allow for immediate revenue account classification in conformance with the Uniform Chart of Accounts;
- g) Checks must be restrictively endorsed at the point and time of collection;
- h) When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted; and
- i) When possible, collections must be reconciled by an individual not involved in the receipting process.

All money must be turned over intact. Intact means that the deposit must include all of the checks and cash received for a specific numerically sequenced receipt group. Any overage and/or shortage amounts should be deposited and recorded separately along with the receipts. All voided receipts should be kept intact and maintained in sequential order along with the other receipts. Strong internal control activities require the maintenance of original source documentation to be kept intact. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, states, in part, that: "if computerized receipts are issued, all receipts' triplicate copies should be printed and retained in numerical order."

*Recommendation:* We recommend that all library offices that collect cash issue receipts immediately and implement the aforementioned procedures. Monthly procedures should include comparing receipts written for the month with the receipts register and with bank deposits by an individual other than just the district library director.

*Management Response:* Library clerks have always received and recorded monies for library services (overdue fines, memorials, donations, copy machine fees, fax machine fees, book replacement costs, internet payments) at the circulation desk.

As in the past, deposits are now being recorded and deposited by another staff member other than the district library director.

Account classification will be included on all bank deposits by the director. Employees are not aware of what the account classifications would be at the time they are recording receipts.

Official receipts are now being issued for all revenue collected.

## ALMONT DISTRICT LIBRARY

### COMMENTS AND RECOMMENDATIONS

#### MATERIAL WEAKNESSES (Continued)

Numerical official receipts with the name of the local unit printed on the receipt have always been used. The district library does not use store-bought generic receipts.

“Cash” or “Check” along with check number is indicated on receipts.

The person receiving the collection signs the receipt indicating that they were responsible for receiving the collection.

All collections received are verified by the director before recording and deposited by an individual other than the director.

A person other than the person involved in the receipting process verifies collections.

All money will be kept “intact,” and overage and/or shortages will be recorded separately along with receipts. Voided receipts will be kept intact in the receipt book.

The district library will implement recommendations as indicated for material weaknesses.

#### Disbursement Process (Vendor and Payroll Checks)

*Finding 04-02*

##### 1) Director--Lack of Account Classification, Administrative Approval

*Condition:* Invoices prepared by the district library do not contain administrative approval nor did they contain an account classification.

*Criteria:* According to the Uniform Accounting Procedures Manual, appropriate documentation (supporting invoices) must be attached for all disbursements. Invoices should provide evidence that the proper individual has reviewed them and must indicate the account classification.

*Recommendation:* We recommend that the person reviewing the invoices provide evidence that the invoice has been reviewed and indicate the account classification on the invoice or an attached payment voucher.

*Management Response:* The person reviewing the invoices will begin initialing each invoice as evidence that the invoice was reviewed and account classification will be included.

##### 2) Library Board--Purchasing Policy

*Condition:* The district library does not have a purchasing policy.

## ALMONT DISTRICT LIBRARY

### COMMENTS AND RECOMMENDATIONS

#### MATERIAL WEAKNESSES (Continued)

*Criteria:* A system of internal controls over expenditures depends upon a purchasing policy which results in methods for approving and making expenditures which are under the control of a central oversight agency, the library board. A purchasing policy is required to establish guidelines for purchasing functions and procedures.

*Cause and Effect:* Expenditures may or may not have been made in accordance with the district library's best interest. The lack of a written policy makes it difficult to determine the validity of expenditures in the future. Adequate control procedures over expenditures require that procedures for expending library funds be clearly defined and followed by all personnel.

*Recommendation:* We recommend that the district library board give consideration to developing a written purchasing policy that clearly defines the following:

- a) An amount that can be expended without board approval;
- b) The amount of expenditures that require board approval;
- c) Documentation required for all expenditures;
- d) The amount of expenditures that require formal bid procedures; and
- e) The amounts and types of purchases that are required to be capitalized.

Other procedures that could be included are ethical standards, expense reimbursements, requisitions and purchase orders, price quotations, bids, advertising, sealed proposals, public opening, awarding, forms of contracts the district library is willing to enter, requests for proposals, emergency purchasing, local supplies preferences, and/or cooperative purchasing.

Developing and implementing a written policy of this nature will not only ensure that expenditures continue to be made in accordance with library policy, it will also serve as criteria and evidence that officials are conducting the business of the district library appropriately.

*Management Response:* The district library board will be updating its policies within the 2005/2006 fiscal year and will include a purchasing policy including what is defined in the recommendations.

#### District Library Board--Capital Assets

*Finding 04-03*

*Condition:* The district library does not maintain adequate internal controls for capital assets in accordance with generally accepted accounting principles.

The district library has not adopted a capitalization policy to determine a "threshold" to capitalize an asset or record the payment as an expenditure.

## ALMONT DISTRICT LIBRARY

### COMMENTS AND RECOMMENDATIONS

#### MATERIAL WEAKNESSES (Continued)

*Criteria:* It is the responsibility of the district library to update the capital assets listing for additions and deletions. Assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. Disposals should equal the reductions to the capital asset records.

*Recommendation:* We recommend that the district library develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the district library should be taken and included in the permanent records of the district library and updated annually.
- 2) All assets owned by the district library should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the district library to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the district library should keep records on all assets owned by the district library which includes the following information:

-Date of Acquisition	-Date of Disposal (when sold or scrapped)
-Tag Number	-Salvage Value (if any)
-Description of Property	-Life of Asset
-Original Cost of Asset	-Depreciation Method of the Asset
-Location of Asset	-Accumulated Depreciation of the Asset

- 4) Capital assets that meet the district library's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets, it will provide an excellent record for insurance and replacement purposes as well. Governmental Accounting Standards Board (GASB) Statement No. 34 requires capital assets to be included in the financial statements of the district library. Compliance with GASB No. 34 is mandated for the district library for fiscal year ending November 30, 2006 and after.

*Management Response:* A capitalization policy will be prepared for the board's approval and adoption in the 2005/2006 fiscal year.

A property management system will be put in place.



ALMONT DISTRICT LIBRARY  
COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES

Our examination revealed the following instance of noncompliance with State statutes.

District Library Board--Adoption of Library General Appropriation Acts *Finding 04-04*

*Condition:* The district library actual expenditures exceeded the final amended budget for 4 line-items for the fiscal year ending November 30, 2004.

*Criteria:* MCL 141.438 Section 18 (3) states: "Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body."

*Directive:* We direct the district library to comply with the above statutory budgeting requirements and make budget amendments as needed throughout the year.

*Management Response:* At the end of the 2003/2004 fiscal year, the ending proposed budget had indicated that 2 line-items had exceeded the final amended budget. This could be because accounts receivable and payable were not considered.

The district library will track expenditures more closely and make budget amendments as needed throughout the year.

District Library Board--Electronic Transactions of Public Funds *Finding 04-05*

*Condition:* Almont District Library electronically transfers funds for payroll taxes and withholdings without legal authority.

*Criteria:* According to MCL 124.303: "A local unit shall not be a party to an ACH arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the ETO of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.

## ALMONT DISTRICT LIBRARY

### COMMENTS AND RECOMMENDATIONS

#### NONCOMPLIANCE WITH STATE STATUTES (Continued)

- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary.”

*Directive:* We direct the district library board to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.

*Management Response:* The Almont District Library does not transfer funds electronically for payroll taxes and withholdings. It makes deposits with the district library’s local banking facility. However, if required, the district library board will adopt a resolution to authorize electronic transactions in the 2005/2006 fiscal year.

*Auditor Comment:* The local banking facility, on behalf of the district library, electronically transfers payroll taxes and withholdings to the appropriate governmental offices. The district library should adopt an ACH policy for electronic transfers whether done by themselves or others on their behalf.

#### District Library Board--Investment Policy

*Finding 04-06*

*Condition:* The district library has not adopted an investment policy in accordance with Public Act 96 of 1997.

*Criteria:* According to Public Act 20 of 1943, a formal investment policy is to be adopted by the board no later than December 1998.

*Directive:* We direct that the district library’s board adopt an investment policy in accordance with the requirements in Public Act 20 of 1943. The policy should also address investment risk, custodial credit risk, credit risk in accordance with GASB No. 40.

*Management Response:* Upon revisions of the Almont District Library Policies, an investment policy will be prepared for the board’s approval.

#### District Library Board--Credit Card Policy

*Finding 04-07*

*Condition:* The district library does not have a credit card policy in accordance with Public Act 266 of 1995.

*Criteria:* Public Act 266 of 1995 authorizes the use of credit cards by local units of government and requires adopting a written policy by resolution. The policy must include:

## ALMONT DISTRICT LIBRARY

### COMMENTS AND RECOMMENDATIONS

#### NONCOMPLIANCE WITH STATE STATUTES (Continued)

- a) A named officer or employee is responsible for the issuance, accounting, monitoring, and retrieval and generally for overseeing compliance with the credit card policy.
- b) That the credit card may be used only by an officer or employee for the purchase of goods or services for the official business of the local unit.
- c) The officer or employee using the credit card must submit documentation detailing the goods or services purchased, cost, date of the purchase, and the official business.
- d) The officer or employee issued the card is responsible for its protection and custody and shall immediately notify the local unit if the card is lost or stolen.
- e) The officer or employee must immediately surrender the card upon termination.
- f) For a system of internal controls to monitor the use of the credit card.
- g) Approval of credit card invoices **before** payment.
- h) That the balance including interest due on an extension of credit under the credit card arrangement shall be paid for not more than 60 days of the initial statement date. The local unit shall comply with this provision of the credit card policy.
- i) The policy must provide for disciplinary measures consistent with law for unauthorized use.
- j) Any other matters the governing body considers advisable.

The total combined authorized credit limit of all credit cards issued by a local unit shall not exceed 5% of the total budget of the local unit for the current fiscal year.

*Recommendation:* We direct the district library to adopt a credit card policy that will comply with Public Act 266 of 1995 and the above procedures.

*Management Response:* The district library does not and has never had a credit card for use by an employee or officer. However, if a credit card policy is required, then the board will adopt a policy.